Notes to the Financial Statements

1. SEGMENTAL REPORTING

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom. The business segmental reporting format reflects the Group's management and internal reporting structure.

2. OPERATING EXPENSES

For the period	**52 weeks to 30 March 2007 £m**	52 weeks to 31 March 2006 £m
Selling and distribution costs	**240.1**	221.5
Administrative expenses	**42.5**	36.1
	282.6	257.6

3. OPERATING PROFIT

For the period	**52 weeks to 30 March 2007 £m**	52 weeks to 31 March 2006 £m
Operating profit is arrived at after charging/(crediting):		
Operating lease rentals:		
— plant and machinery	**1.0**	0.8
— property rents	**70.9**	66.3
— rentals receivable under operating leases	**(9.8)**	(10.7)
Landlord contributions	**(4.5)**	(6.9)
Loss on disposal of property, plant and equipment	**0.2**	0.5
Amortisation of intangible assets (included in administrative expenses)	**1.7**	1.9
Depreciation of:		
— owned property, plant and equipment	**18.6**	18.9
— assets held under finance leases	**0.6**	0.7
Net foreign exchange gains	**—**	(2.0)
Trade receivables impairment	**0.2**	—

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.5m (2006: £0.5m) in respect of the services detailed below:

For the period	**52 weeks to 30 March 2007 £'000**	52 weeks to 31 March 2006 £'000
Fees payable for the audit of the parent company and consolidated accounts	**28**	37
Fees payable to PricewaterhouseCoopers LLP and their associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**119**	111
Other services supplied pursuant to such legislation	**21**	21
Other services relating to taxation	**263**	232
All other services	**95**	77
Fees in respect of the audit of Halfords Pension Plan	**20**	20
	546	498

4. EMPLOYEE BENEFIT EXPENSE

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
The aggregated remuneration of all employees including directors comprised:		
Wages and salaries	**97.5**	88.5
Social security costs	**7.1**	6.8
Share-based payment charge	**2.1**	1.3
Other pension costs (note 22)	**3.1**	3.3
	109.8	99.9

	Number	Number
Average number of persons employed by the Group during the period:		
Stores	**9,637**	9,385
Central warehousing	**205**	223
Head office	**483**	461
	10,325	10,069

Full details of directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 30 to 35.

Key management compensation

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Salaries and short-term benefits	**2.2**	1.4
Social security costs	**0.3**	0.2
Pensions	**0.2**	0.2
Share-based payment charge	**0.5**	0.7
	3.2	2.5

Key management compensation includes the emoluments of the Board of Directors, which are disclosed separately in the Directors' Remuneration Report, and the emoluments of the Halfords Limited Board.

Notes to the Financial Statements
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5. NET FINANCE COSTS

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Finance costs:		
Bank borrowings	**(10.0)**	(9.7)
Amortisation of issue costs on loans	**(0.3)**	(0.7)
Commitment and guarantee fees	**(0.2)**	(0.3)
Cost of forward foreign exchange contracts	**—**	(0.9)
Interest payable on finance leases	**(0.9)**	(0.9)
Finance costs before exceptional finance costs	**(11.4)**	(12.5)
Exceptional finance costs:		
Accelerated amortisation of issue costs on loans(1)	**(1.5)**	—
Swap close out costs(2)	**(1.1)**	—
	(2.6)	—
Finance costs	**(14.0)**	(12.5)
Finance income: Bank and similar interest	**1.4**	0.4
Net finance costs	**(12.6)**	(12.1)

(1) On 14 July 2006 the Group replaced its existing borrowings with a five-year term loan of £180m and a revolving credit facility of £120m. As a consequence, a charge of £1.5m was made in respect of the accelerated amortisation of the issue costs associated with the original borrowings.

(2) On 29 September 2006 the Group closed out the interest rate swap on its old borrowings at a cost of £1.1m. On the same date, the interest on the new £180m term loan was fixed for a three-month period. On 29 December the Group entered into a new interest rate swap for £70m for the length of the new facility.

6. TAXATION

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Current taxation		
UK corporation tax charge for the period	**26.1**	25.8
Adjustment in respect of prior periods	**(0.4)**	(1.2)
	25.7	24.6
Deferred taxation		
Origination and reversal of timing differences	**(1.9)**	(1.5)
Adjustment in respect of prior periods	**(0.3)**	0.3
	(2.2)	(1.2)
Total tax charge for the period	**23.5**	23.4

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Profit before tax	**80.9**	77.0
UK corporation tax at standard rate of 30.0% (2006: 30%)	**24.3**	23.1
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.7**	1.1
Deduction for employee share options	**—**	(0.3)
Impact of intra-group financing	**(1.4)**	—
Other disallowable expenses	**0.6**	0.4
Adjustment in respect of prior periods	**(0.7)**	(0.9)
Total tax charge for the period	**23.5**	23.4

7. DIVIDENDS

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Equity — ordinary shares		
Final for the 52 weeks ended 31 March 2006 — paid 8.75p (2006: 8.3p)	**19.8**	18.9
Interim — paid 4.35p (2006: 4.0p)	**9.7**	9.1
	29.5	28.0

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 March 2007 of 9.50p per share, which will absorb an estimated £20.8m of shareholders' funds. It will be paid on 1 August 2007 to shareholders who are on the register of members on 29 June 2007.

8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 19) and has been adjusted for the issue/repurchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 30 March 2007.

For the period	52 weeks to 30 March 2007 Number m	52 weeks to 31 March 2006 Number m
Weighted average number of shares in issue	**223.8**	228.0
Less: shares held by the Employee Benefit Trust	**(0.9)**	(0.9)
Weighted average number of shares for calculating basic earnings per share	**222.9**	227.1
Weighted average number of dilutive shares	**0.9**	0.2
Total number of shares for calculating diluted earnings per share	**223.8**	227.3

The alternative measure of earnings per share is provided because it reflects the Group's underlying performance by excluding the effect of exceptional items.

For the period	52 weeks to 30 March 2007 £m	52 weeks to 31 March 2006 £m
Basic earnings attributable to equity shareholders	**57.4**	53.6
Exceptional items:		
Finance costs (see note 5)	**2.6**	—
Tax on exceptional finance costs	**(0.8)**	—
Underlying earnings before exceptional items	**59.2**	53.6

Earnings per share is calculated as follows:

For the period	52 weeks to 30 March 2007	52 weeks to 31 March 2006
Basic earnings per ordinary share	**25.8p**	23.6p
Diluted earnings per ordinary share	**25.6p**	23.6p
Basic earnings per ordinary share before exceptional items	**26.6p**	23.6p
Diluted earnings per ordinary share before exceptional items	**26.5p**	23.6p

Notes to the Financial Statements
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9. INTANGIBLE ASSETS

	Computer software £m	Product rights £m	Goodwill £m	Total £m
Cost				
At 1 April 2005	7.4	0.2	274.8	282.4
Additions	1.4	—	—	1.4
At 31 March 2006	8.8	0.2	274.8	283.8
Additions	0.7	—	—	0.7
At 30 March 2007	**9.5**	**0.2**	**274.8**	**284.5**
Amortisation				
At 1 April 2005	1.2	0.2	21.7	23.1
Charge for the period	1.9	—	—	1.9
At 31 March 2006	3.1	0.2	21.7	25.0
Charge for the period	1.7	—	—	1.7
At 30 March 2007	**4.8**	**0.2**	**21.7**	**26.7**
Net book value at 30 March 2007	**4.7**	**—**	**253.1**	**257.8**
Net book value at 31 March 2006	5.7	—	253.1	258.8
Net book value at 1 April 2005	6.2	—	253.1	259.3

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom, and as such goodwill is calculated assuming one cash-generating unit ("CGU").

The recoverable amount of goodwill is determined based on 'value-in-use' calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The key assumptions used in the value-in-use calculation for goodwill held at 30 March 2007 and 31 March 2006 are as follows:

	Notes	2007	2006
Discount rate	(1)	**8.6%**	8.6%
Growth rate	(2)	**0.0%**	0.0%
Tax rate		**31.9%**	31.9%

Notes:
(1) Post-tax discount rate applied to the cash flow projections.
(2) Growth rate used to extrapolate cash flows beyond the budget period.

10. PROPERTY, PLANT AND EQUIPMENT

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 1 April 2005	41.0	211.0	0.4	252.4
Additions	2.2	23.2	1.0	26.4
Disposals	(0.1)	(2.2)	—	(2.3)
Reclassifications	0.2	0.2	(0.4)	—
At 31 March 2006	43.3	232.2	1.0	276.5
Additions	2.1	16.0	4.7	22.8
Disposals	(0.1)	(0.9)	—	(1.0)
Reclassifications	0.2	0.2	(0.4)	—
At 30 March 2007	**45.5**	**247.5**	**5.3**	**298.3**
Depreciation				
At 1 April 2005	12.5	142.1	—	154.6
Depreciation for the period	1.9	17.7	—	19.6
Disposals	(0.1)	(1.7)	—	(1.8)
At 31 March 2006	14.3	158.1	—	172.4
Depreciation for the period	2.0	17.2	—	19.2
Disposals	—	(0.8)	—	(0.8)
At 30 March 2007	**16.3**	**174.5**	**—**	**190.8**
Net book value at 30 March 2007	**29.2**	**73.0**	**5.3**	**107.5**
Net book value at 31 March 2006	29.0	74.1	1.0	104.1
Net book value at 1 April 2005	28.5	68.9	0.4	97.8

Included in the above are assets held under finance leases as follows:

	Land and buildings £m	Fixtures, fittings, and equipment £m	Total £m
As at 30 March 2007			
Cost	12.7	0.8	13.5
Accumulated depreciation	(1.5)	(0.5)	(2.0)
Net book value	**11.2**	**0.3**	**11.5**
As at 31 March 2006			
Cost	12.7	0.8	13.5
Accumulated depreciation	(1.0)	(0.4)	(1.4)
Net book value	11.7	0.4	12.1

No fixed assets are held as security for external borrowings.

Notes to the Financial Statements
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11. INVENTORIES

	2007 £m	2006 £m
Finished goods for resale	**141.6**	127.2

The Group consumed £364.1m (2006: £335.2m) of inventories during the period.

Finished goods inventories include £5.6m (2006: £5.8m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

12. TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Falling due within one year:		
Trade receivables	**3.8**	4.0
Less: provision for impairment of receivables	**(0.3)**	(0.1)
Trade receivables — net	**3.5**	3.9
Other receivables	**8.5**	5.1
Prepayments and accrued income	**20.6**	20.4
	32.6	29.4

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

13. CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	**24.8**	1.5

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2007 £m	2006 £m
Cash at bank and in hand	**24.8**	1.5
Bank overdrafts	**(13.0)**	(19.9)
	11.8	(18.4)

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

14. TRADE AND OTHER PAYABLES — CURRENT

	2007 £m	2006 £m
Trade payables	**65.1**	65.2
Other taxation and social security payable	**16.5**	17.0
Other payables	**0.8**	1.5
Accruals and deferred income	**31.1**	18.2
	113.5	101.9

15. BORROWINGS

Current	2007 £m	2006 £m
Bank loans and overdrafts due within one year or on demand — unsecured	**13.0**	63.2
Finance leases	**0.3**	0.3
	13.3	63.5
Non-current		
Bank loan — unsecured	**179.1**	99.0
Finance leases	**12.4**	12.7
	191.5	111.7

The above borrowings are stated net of unamortised issue costs of £0.9m (2006: £1.7m).

The exposure of borrowings to interest rate changes when borrowings reprice is as follows:

	1 year £m	1–5 years £m	Total £m
Total borrowings as at 30 March 2007	**192.1**	**—**	**192.1**
Effect of interest rate swaps	**(70.0)**	**70.0**	**—**
	122.1	**70.0**	**192.1**

	1 year £m	1–5 years £m	Total £m
Total borrowings as at 31 March 2006	162.2	—	162.2
Effect of interest rate swaps	(100.0)	100.0	—
	62.2	100.0	162.2

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Bank overdraft	**6.25%**	5.50%
Bank borrowings	**5.49%**	5.22%
Finance leases	**7.14%**	7.14%

Notes to the Financial Statements
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15. BORROWINGS continued

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities at 30 March 2007 was as follows:

	Debt £m	Finance leases £m	2007 Total £m	Debt £m	Finance leases £m	2006 Total £m
Expiring between 1 and 2 years	—	0.2	0.2	19.5	0.3	19.8
Expiring between 2 and 5 years	179.1	0.7	179.8	79.5	0.9	80.4
Expiring after 5 years	—	11.5	11.5	—	11.5	11.5
	179.1	12.4	191.5	99.0	12.7	111.7

The Group completed a debt refinancing exercise on 14 July 2006. The debt facility now comprises a £180m 5-year non-amortising loan, maturing with a bullet repayment on 13 July 2011 and a £120m revolving credit facility. This facility is underwritten by The Royal Bank of Scotland Group plc and the syndication group allocations were effected from 29 September 2006.

The term loan attracts interest rate of LIBOR plus a fixed margin of 0.45%, and the rate is set biannually. An interest rate swap is in place for £70m and mirrors the biannual rate setting of the term loan facility. The revolving credit facility permits further borrowings to a maximum of £120m. This facility matures on 13 July 2011 and drawings under the facility attract interest at LIBOR plus 0.45%–0.50% dependent upon covenant fulfilment.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the period end in respect of which all conditions precedent had been met at that date:

	2007 £m	2006 £m
Expiring within 1 year	1.0	1.0
Expiring between 2 and 5 years	120.0	106.9
	121.0	107.9

The facilities expiring within one year were annual facilities subject to review at various dates during the period. The other facilities were arranged to help finance the proposed expansion of the Group's activities. All these facilities incurred commitment fees at market rates.

The minimum lease payments under finance leases fall due as follows:

	2007 £m	2006 £m
Not later than one year	1.1	1.1
Later than one year but not more than five years	4.1	4.2
More than five years	19.0	20.1
	24.2	25.4
Future finance charges on finance leases	(11.5)	(12.4)
Present value of finance lease liabilities	12.7	13.0

16. PROVISIONS

	Vacant property £m	Returns £m	Total £m
At 31 March 2006	0.7	0.5	1.2
Charged during the period	0.5	0.9	1.4
Utilised during the period	(0.5)	(0.5)	(1.0)
At 30 March 2007	**0.7**	**0.9**	**1.6**

Both of the above provisions are classified as current as they are expected to be utilised in the next financial year.

Provisions include a vacant property provision of £0.7m (2006: £0.7m) and a provision of £0.9m (2006: £0.5m) in respect of estimated sales returns. The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties.

17. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2006: 30%).

	2007 £m	2006 £m
The movement on the deferred taxation provision is shown below:		
At the beginning of the period	**3.5**	5.1
Income statement credit	**(2.2)**	(1.2)
Credited to equity	**(0.4)**	(0.4)
At the end of the period	**0.9**	3.5

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities:

	Accelerated tax depreciation £m
At 1 April 2005	(8.7)
Credit to the income statement	0.3
At 31 March 2006	(8.4)
Credit to the income statement	0.5
At 30 March 2007	**(7.9)**

Deferred tax assets:

	Provisions and share options £m
At 1 April 2005	3.6
Credit to the income statement	0.9
Credit to equity	0.4
At 31 March 2006	4.9
Credit to the income statement	1.7
Credit to equity	0.4
At 30 March 2007	**7.0**
Net deferred tax liability	
At 31 March 2006	3.5
At 30 March 2007	**0.9**

Notes to the Financial Statements
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18. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivative financial instruments

The Group's policy is to hedge the following exposures:

- Interest rate risk — using interest swaps.
- Forward foreign currency contracts are also used for currency exposures on future expected purchases.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. Under the Group's accounting policy, foreign currency transactions, which are hedged using forward foreign currency contracts, are translated at the contracted rates. Consequently, the carrying value of the relevant asset or borrowings effectively includes the gain or loss on the hedging instrument.

	2007 Assets £m	**2007 Liabilities £m**	2006 Assets £m	2006 Liabilities £m
Interest rate swaps	**1.3**	**—**	—	2.1
Forward foreign currency contracts	**—**	**2.4**	1.2	—
Total	**1.3**	**2.4**	1.2	2.1
Less non-current portion				
Interest rate swaps	**(1.3)**	**—**	—	(2.1)
Forward foreign currency contracts	**—**	**(0.1)**	—	—
Current portion	**—**	**2.3**	1.2	—

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 March 2007 are £71.9m (2006: £63.5m). Gains and losses in equity on forward foreign exchange contracts as of 30 March 2007 will be released to the income statement at various dates between one and thirteen months from the balance sheet date.

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contract at 30 March 2007 was £70m (2006: £120m). At 30 March 2007 the fixed interest rate was 5.165% and the floating rate is LIBOR.

Treasury policy

The Group's objective in using financial instruments is to minimise its exposure to financial risk. The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group; and
- Manage the foreign exchange risk on its non-sterling cash flows.

The main risk arising from the Group's financial instruments is interest rate risk. Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis. The latest policy review was performed in December 2006.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the next three to five years at a reasonable cost and ensure adequate flexibility to meet the changing needs of the enterprise.

Financial risk

The Business Plan and cash flow forecasts are subject to key assumptions such as interest rates and the significance of these risks is dependent upon the level of the trading profit and the strength of the balance sheet.

Interest rate risk

The Group maintains its policy to minimise interest rate risk on its borrowings and deposits by using interest rate derivatives where appropriate. The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The aim is to reduce exposure to the effect of interest rates movements by hedging at least 40% of the following period's net interest rate exposure, whilst maintaining the flexibility to minimise early termination costs.

18. DERIVATIVE FINANCIAL INSTRUMENTS continued

Foreign currency risk

The Group has a significant transaction exposure with increasing, direct source purchases of its supplies from the Far East, with most of the trade being specifically US dollar denominated. The Group's policy is to manage the foreign exchange transaction exposures of the business for a minimum period of twelve months forward to ensure the actual costs do not exceed the budget costs by 10% (excluding increases in the base cost of the product). The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling business whilst they remain immaterial.

Credit risk

The Group's policy is to minimise the risk that foreign exchange and interest rate derivative counterparties, the holders of surplus cash and the providers of debt will be unable to fulfil their obligations and also, in the case of lenders, unwilling to renegotiate the terms of the borrowings. The Group ensures that such counterparties used for credit transactions hold at least an A credit rating.

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when required. The Group ensures that it has sufficient funding to meet its Business Plan requirements so that it is not reliant on there being sufficient liquidity in the market when it needs the funding.

Fair values of non-derivative financial liabilities

The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 30 March 2007 and 31 March 2006.

	2007 Book value £m	**2007 Fair value £m**	2006 Book value £m	2006 Fair value £m
Trade and other receivables	**32.6**	**32.6**	29.4	29.4
Short-term borrowings	**(13.0)**	**(13.0)**	(63.2)	(63.2)
Long-term borrowings	**(179.1)**	**(179.1)**	(99.0)	(99.0)
Finance leases	**(12.7)**	**(12.7)**	(13.0)	(13.0)
Other financial liabilities — current	**(115.1)**	**(115.1)**	(103.1)	(103.1)
Other financial liabilities — non-current	**(25.9)**	**(25.9)**	(22.7)	(22.7)
Cash at bank and in hand	**24.8**	**24.8**	1.5	1.5

Fair value assumptions

Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

19. EQUITY SHARE CAPITAL

Ordinary shares of 1p each:	**2007 Number of shares**	**2007 £**	2006 Number of shares	2006 £
Authorised	**295,000,000**	**2,950,000**	295,000,000	2,950,000
Allotted, called up and fully paid	**219,046,537**	**2,190,465**	228,027,743	2,280,277

Allotted, called up and fully paid share capital decreased during the period due to the Company's £50m share repurchase programme. During the period the Company acquired 9,003,956 shares at a cost of £30.0m. Distributable reserves have been reduced by £30.0m, being the consideration paid for the shares.

The Company's share capital increased by 22,750 shares (2006: 91,000) due to the early exercising of share options by members of the Halfords Share Option Scheme. Early exercise of the options are allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy, retirement or on the sale of his employing company or business.

On 17 May 2007 the Company applied for block listing of a total of 6,000,000 ordinary shares of 1p each to be admitted on allotment to the Official List of the UK Listing Authority and to trade on the London Stock Exchange market for listed securities. The shares will be allotted under the Company's CSOP and SAYE share schemes and when issued, will rank *pari passu* with the existing ordinary shares of the Company.

Interest in own shares

At 30 March 2007 the Company held in Trust 877,498 (2006: 881,350) of its own shares with a nominal value of £8,774 (2006: £8,814). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares.

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20. SHARE-BASED PAYMENTS
At present the Group has three share award plans:

1. Halfords Company Share Option Scheme ("CSOP")
2. Halfords Sharesave Scheme ("SAYE")
3. The Long-Term Incentive Plan ("LTIP")

1. The Halfords Company Share Option Scheme
The CSOP was introduced in June 2004. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

The Company has made annual grants in 2004/05, 2005/06 and 2006/07. Options granted will become exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% for 2004/05 grants, 5% for 2005/06 grants and 3.5% for 2006/07 grants. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10% a proportion of the option in excess of 150% of salary can be exercised. Exercise of an option is subject to continued employment. Grants in excess of 150% of salary have only been made under the 2004/05 scheme.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black-Scholes option pricing models. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations were as follows:

Grant Date	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.010	£2.955	£2.600
Exercise price	£3.010	£2.955	£2.600
Number of employees	36	42	3,598
Shares under option	252,000	294,000	6,556,953
Vesting period (years)	3	3	3
Expected volatility	35%	37%	40%
Option life (years)	10	10	10
Expected life (years)	4.85	4.85	3.85
Risk-free rate	4.70%	4.68%	4.68%
Expected dividend yield	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£0.77	£0.79	£0.70
Number of options outstanding at 30 March 2007	252,000	259,000	4,709,030

2. Halfords Sharesave Scheme
The SAYE is open to all colleagues with eligible employment service. Options may be exercised under the scheme if the option holder completes his saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

The fair value per option granted and the assumptions used in the calculations were as follows:

Grant Date	1 August 2006	11 August 2005	7 June 2004
Share price at grant date	£3.01	£3.07	£2.64
Exercise price	£3.01	£3.07	£2.64
Number of employees	343	573	1,561
Shares under option	173,558	269,037	1,364,861
Vesting period (years)	3	3	3
Expected volatility	22%	36%	39%
Option life (years)	3	3	3
Expected life (years)	3.5	3.5	3.5
Risk-free rate	4.75%	4.68%	4.68%
Expected dividend yield	4.10%	4.00%	4.00%
Possibility of ceasing employment before vesting	44%	53%	36%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£0.44	£0.81	£0.65
Number of options outstanding at 30 March 2007	153,941	185,361	931,015

20. SHARE-BASED PAYMENTS continued

3. The Long-Term Incentive Plan

The introduction of a Long-Term Incentive Plan ('LTIP') was approved at the Annual General Meeting in August 2005 awarding the executive directors and certain senior management conditional rights to receive shares.

To date two schemes have been approved for 2005/06 and 2006/07. The extent to which rights vest will depend upon the Group's performance over the subsequent three financial years.

The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Group's absolute earnings per share performance against RPI. The Group's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted.

Options were valued using a Monte Carlo simulation option pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant Date	11 July 2006	8 August 2005
Share price at grant date	£3.01	£3.07
Number of employees	18	17
Shares under option	596,908	537,417
Vesting period (years)	3	3
Expected volatility	22%	31%
Option life (years)	3	3
Expected life (years)	3	3
Risk-free rate	4.75%	4.30%
Expected dividend yield	4.25%	4.00%
Possibility of ceasing employment before vesting	30%	30%
Expectations of meeting performance criteria	100%	50%
Fair value per option	£1.82	£2.19
Number of shares outstanding 30 March 2007	510,241	454,803

A reconciliation of option movements for the CSOP, SAYE and LTIP performance plans over the year to 30 March 2007 are shown below:

	30 March 2007		31 March 2006	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at start of year	**7,819**	**2.67**	7,067	2.61
Granted	**1,029**	**3.01**	1,100	3.04
Forfeited	**(171)**	**3.04**	(7)	2.96
Exercised	**(28)**	**2.61**	(85)	2.60
Lapsed	**(1,194)**	**2.64**	(256)	2.67
Outstanding at end of year	**7,455**	**2.71**	7,819	2.67
Exercisable at end of year	**—**	**—**	3	2.60

30 March 2007				31 March 2006			
Weighted average exercise price	**Number of shares**	**Weighted average remaining life (years) Expected**	**Contractual**	Weighted average exercise price	Number of shares	Weighted average remaining life (years) Expected	Contractual
£2.60	**4,709**	**0.8**	**7.2**	£2.60	5,739	2.0	8.2
£2.64	**931**	**0.3**	**0.6**	£2.65	1,022	1.6	1.6
£2.95	**259**	**1.3**	**1.8**	£2.95	287	4.2	9.3
£3.01	**406**	**2.5**	**2.8**	£3.01	—	—	—
£3.07	**185**	**1.5**	**2.0**	£3.07	233	3.0	3.0
£0.00	**965**	**1.7**	**1.7**	£0.00	538	2.0	2.0

The weighted average share price during the period for options exercised was £2.61 (2006: £2.60). The total charge for the year relating to employee share-based payment plans was £2.1m (2006: £1.3m), all of which related to equity-settled share-based payment transactions.

Notes to the Financial Statements
continued

21. COMMITMENTS

	2007 £m	2006 £m
Capital expenditure: contracted but not provided	**2.8**	1.3

The Group leases various stores, warehouses and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses and renewal rights.

At 30 March 2007, the Group was committed to making payments in respect of these leases in the following periods:

	Land and buildings 2007 £m	Other assets 2007 £m	Land and buildings 2006 £m	Other assets 2006 £m
Within one year	**73.7**	**0.6**	69.6	0.7
Later than one year and less than five years	**288.8**	**0.5**	274.6	0.9
After five years	**446.0**	**—**	449.5	—
	808.5	**1.1**	793.7	1.6

The operating lease commitments are shown before receipts of sublet income.

22. PENSIONS
From 1 December 2002 employees have been offered membership of the Halfords Pension Plan, a defined contribution pension arrangement. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £3.1m (2006: £3.3m) representing 3% of pensionable salaries for new employees and 5% to 12% of pensionable salaries for employees who transferred from the Boots Group pension scheme, plus a further 2% to 7% for employees whose earnings are above the upper earnings threshold.

23. CONTINGENT LIABILITIES
The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantees, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 30 March 2007 amounted to £3.2m (2006: £3.1m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

24. POST-BALANCE SHEET EVENTS
On 21 March 2007, it was announced that the full rate of UK corporation tax will be reduced from 30% to 28% from April 2008. Once this change is substantively enacted, when the Finance Bill has been approved, deferred tax assets and liabilities will be reassessed in the year ending 28 March 2008 to reflect the lower tax rate.